



Memorandum

To: Panel Members

Date: June 24, 2011

From: Brian McMahon, Executive Director

File:

Subject: FUNDING PRIORITY RECOMMENDATIONS FISCAL YEAR 2011-12

In this Memorandum, staff is recommending steps to make the best and most equitable use of core program funds and alternate-source funds in Fiscal Year (FY) 2011-12. Staff is also identifying revenue projection issues and trends that may require mid FY adjustments for the core program.

Issue

How the Panel can best allocate available training funds in FY 2011-12?

Background

Last fall, based on the annual projection for revenue collections in the Employment Training Fund (ETF), which showed a substantial reduction in revenue generated by the Employment Training Tax (ETT), the Panel adopted a Strategic Investment Plan that varied significantly from typical priorities for funding (Panel Memorandum dated October 29, 2010).

These priorities included caps and allocations by project types such as Critical Proposals, Small Business, and Multiple Employer Contracts (MECs). Single employer retraining was not eligible for funding but for a new Job Creation program focused on newly hired employees.

Project sizes were capped in the above categories at \$300K for Critical Proposals, \$300K for Job Creation-Retrainee, \$50K for Small Business and \$400K for MECs. In addition to these restrictions, the application process was limited to deadlines in defined cycles for all funding categories.

The Panel also approved the imposition of a Substantial Contribution (SC) at the highest levels permitted by ETP regulations: 30% for a first-time SC and 50% for a subsequent SC, by facility.

Revenue Projections

The first formal estimate of ETT collections in FY 2011-12 will not be made available by EDD until September 2011. However, in order to give the Panel and potential contractors some direction as to funding priorities for the next FY, staff is making recommendations based on anticipated final collections in the current FY and ETP's expected appropriation in the 2011-12 State Budget Act.

Should there be a significant change in these assumptions staff will propose a revised set of recommendations when the Panel meets again, most likely in September.

A number of factors support a "return to normalcy" in FY 2011-12, including:

- An upward trend in ETT collections such that revenues will likely exceed the estimate on which Budget Act appropriations are based
- A significant reduction in prior-year liabilities
- The absence of a "project pipeline" in pent-up demand from the prior FY
- Authorization to disburse alternate-source funds for two programs

Recommendations – Core Program

Based on the conditions and factors discussed above, staff is making the following recommendations for core program funding in FY 2011-12:

Project Caps

Single Employer (priority industry)	\$500K (priority industry)
Single Employer (non-priority)	\$400K (non-priority industry)
Job Creation-Retrainee	\$600K
Critical Proposal	\$750K*
MEC	\$750K
Small Business	\$ 50K**
Fast Track	\$100K***

Notes:

**The Critical Proposal cap may be increased on a case-by-case basis.*

***A new Delegation Order is proposed to make best use of staff resources and streamline the Small Business program.*

****A new Delegation Order is proposed to make best use of staff resources and smooth the flow of contract execution.*

Application Process

ETP will accept new applications using the standard online process beginning in early July with no specific deadlines or closure dates. The specific day will be announced shortly on our web site. However, ETP may need to close new applications later in the FY based on revenue availability (adjusted collection projections) and the level of core program project demand.

Active projects that have met pre-application deadlines, however, that cannot be funded within FY 2011-12 due to funding availability, may remain active for FY 2012-13 funding consideration within the 12 month eligibility period.

Substantial Contribution

Substantial Contribution (SC) levels would be established based on a return to ETP's existing regulatory procedures. This approach gives the Panel the flexibility to approve a level of SC at a floor and ceiling level. The regulation gives the Panel additional flexibility in setting levels based on good cause, on a case-by-case determination.

- Floor: 15% first-time SC and 30% subsequent SC
- Ceiling: 30% first-time SC and 50% subsequent SC
- Exception: 15% or greater subsequent SC (upon showing of good cause)

Additional MEC Requirements

MEC applicants will continue to be required to demonstrate that at least 80% of requested funding is linked to firm employer demand. ETP staff will continue to substantiate this demand during the project development process.

MEC support costs will not be automatically calculated at the highest level allowed by regulation (8% of training costs for retraining and 12% for new-hire training). Instead, applicants will continue to be required to justify the need for, and amount of, support costs for each proposal.

Recommendations - Alternate Source Funding

Staff is also making recommendations for alternate-source projects in FY 2011/12 using WIA 15% federal funds and AB 118 state funds.

WIA 15% Funding

In the 2011-12 State Budget Act the Panel is expected to receive a \$1 million appropriation in Governor's 15% Discretionary Workforce Investment Act (WIA 15%) federal funds to support Healthcare Initiative projects. Due to a reduction in

the level of WIA 15% funds that will be made available to all states in FY 2011/12, ETP's allocation will be significantly reduced from the last two years.

Due to the limited funds in this category, staff will make specific allocation recommendations. They will be to the Panel at its September meeting.

AB 118

The Panel will be authorized to disburse approximately \$4.5 million in Alternative and Renewable Fuel Training Program state funds, in partnership with the California Energy Commission for AB 118 projects. These funds must be authorized through the Department of Finance, following passage of the Budget Act.

For the 2011/12 FY, AB 118 projects will continue to be developed under existing program guidelines which call for project cap targets at the \$500K level for single employer contracts and \$750K for MECs. Based on agreement with the California Energy Commission, projects may under unique circumstances exceed these limits.